9/27/85 C5800-24-U

McGraw-Hill Economics

1221 Avenue of the Americas, 37th Floor
New York, New York 10020

August, 1985

27th ANNUAL McGRAW-HILL SURVEY OF
OVERSEAS OPERATIONS OF U.S. INDUSTRIAL COMPANIES, 1985-87

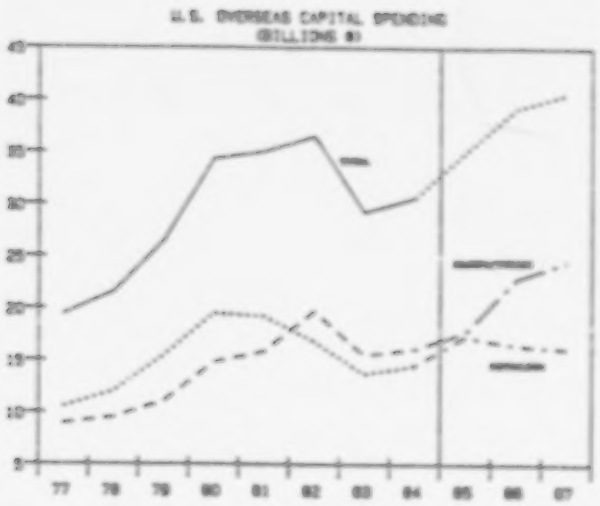
After years of sluggish overseas capital investment, American firms in 1985 expect to sharply increase their purchases of plant and equipment abroad. According to the McGraw-Hill's "27th Annual Survey of Overseas Operations of U.S. Industrial Companies," majority-owned affiliates of U.S. manufacturing and petroleum firms plan to increase foreign expenditures 14.1% in 1985 to $33.3 billion (Table I*).

Manufacturers plan to boost outlays by 19% to $17.3 billion, while petroleum companies expect a smaller increase of 10% to $16.1 billion. (See graph on next page.)

While weaker than the 23% and 30% booms in 1979 and 1980 respectively, the projected rise in total industrial foreign investment by U.S. affiliates would mark the first double-digit rise since 1980. And with world inflation down in recent years, the real gain would be large by historical standards.

The swelling in monies allocated to foreign projects probably reflects two developments: 1) The strong dollar, which makes foreign plant and equipment relatively cheap if bought with the U.S. currency. Too, if the dollar weakens in coming years as is widely anticipated, foreign profits from investments made now will translate into higher dollar-denominated profits later on.

*Tables are at back of report.



2) The 1985 pickup in the world economy, which should have lifted profits of foreign affiliates and raised sales expectations. Such relative optimism shows up in survey respondents' projections of a 6% sales increase next year compared with only 1% in 1985 (Table VI). Companies also expect foreign profit margins to improve next year (Table V).

Despite upbeat expectations about foreign economic conditions in 1986, investment plans of manufacturers point down (Table I). It could be that after this year's spike in investment, U.S. foreign affiliates do not see the need for a further spending increase next year. If foreign economies do perform well in the coming year, however, these weak plans could be raised.

In contrast to manufacturers, American petroleum firms plan a large investment increase in 1986, up 41% to $22.8 billion. However, petroleum's big boost should be put in the context of sharp cutbacks since 1982, when foreign investment by U.S. oil companies peaked at $19.2 billion.

These are some major findings of a survey conducted in July and August among U.S. manufacturing and petroleum companies that account for 35% of U.S. foreign capital spending by majority-owned foreign affiliates. Dollar figures

cited in this report represent foreign capital spending by all U.S. industrial firms, not just those companies included in the survey.

World Economic Signals Are Mixed

While capital investment plans of U.S. manufacturing foreign affiliates show confidence in the world economy in 1985, weaker plans for 1986 and 1987 suggest much uncertainty.

As Asian nations such as South Korea and Taiwan continue to assemble impressive growth numbers, politically and economically unstable countries in Latin America and Africa have steadily lost ground since the 1970s. Case in point is Peru, which earns less in foreign exchange than its annual debt payment. Recently Peru announced plans to limit debt payments to only 10% of its export earnings, leaving American bankers in doubt whether other South American debtors would follow suit.

Meanwhile, neither is the economy unclouded in Europe, where U.S. manufacturing affiliates find the bulk of their markets and where they consequently do the bulk of their investing. Many countries in Europe are fighting to overcome past recessionary problems, including high unemployment and excess capacity in old-line industries.

Nevertheless, all is not bleak. Currently, many European nations are following the lead of the United States in moving to lower interest rates. And Brazil, Argentina, and Mexico have taken strides to cut government spending in order to meet debt obligations and reduce sky-high inflation rates.

Apparently perceiving progress in Latin America, U.S. manufacturers are giving a vote of approval by boosting investment south of the border by 52% this year to $2.9 billion. Nonetheless, that is still below the investment

level in Latin America reached in 1981, before the latest round of international debt fears. What's more, manufacturers currently expect to cut Latin American investment in 1986. Similarly, U.S. petroleum affiliates plan a large Latin American investment increase this year followed by a cut in 1986.

In the European Economic Community (EEC), where most U.S. foreign investment occurs, manufacturers expected to raise outlays only 6% to $7.9 billion, down from $8.7 four years ago. Total U.S. industrial investment in the EEC is projected to fall this year due to a large cutback by oil companies.

Another important market, Canada, is slated to receive a 12% boost in U.S. manufacturing capital outlays to $3.1 billion in 1985 . Petroleum companies plan a small reduction in expenditures.

If investment in all regions meets current projections, it would mark a sharp reversal of the foreign investment trend in recent years. Capital spending by majority-owned U.S. foreign affilliates in manufacturing and petroleum peaked at $36.5 billion in 1981. Even with the large gain projected for 1985, outlays would still fall short of the 1981 level by 9%.

Interestingly, during the same period, capital investment by petroleum and manufacturing firms in the U.S. has increased, from $126.5 billion in 1981 to $138.4 billion in 1984. In a separate McGraw-Hill survey, U.S. manufacturers including oil companies said they would boost domestic capital spending to more than $160 billion this year. Thus despite all the charges that American manufacturers are transferring jobs and resources abroad, the investment record of the 1980s shows that U.S. producers are in fact renewing their commitment to domestic operations.

Manufacturing Has a Day in the Sun

Since 1980, manufacturers have taken a backseat to oil companies in overseas investment; in 1985, the tide should shift. If expenditure projections pan out, the level of capital spending by manufacturing companies should comprise 52% of the total. This dominance should be short-lived, however, as petroleum companies expect to raise overseas expenditures dramatically in 1986, bringing their share to 58%. In 1987, the share is projected to rise to 60%.

This year, manufacturing will be spearheaded by healthy climbs in all industries except for electrical machinery. The metals industry, where investment abroad is projected to surge by 19%, will benefit particularly from increased spending by the steel sector: American steel companies are hoping that joint ventures with foreign competitors will ease their present financial dilemmas. Transportation equipment, up a projected 27.5%, will be paced by auto investment in Europe. Both metals and transportation manufacturers are expecting a resurgence of sales in 1986 after a downturn in 1985.

Curiously, the industry expecting the strongest sales gain in 1985 is electrical machinery, which at the same time projects the weakest investment increase this year. One possibility is that sales in high-tech markets, though growing, have not advanced as swiftly as earlier anticipated. Relatively high expectations in the past are suggested by the fact that while most U.S. manufacturers have cut foreign investment since 1981, electrical manufacturers increased theirs 20% between 1981 and 1984, as shown below.

Next year, most manufacturing industries currently plan to pare capital outlays abroad, with the exception of metals and chemicals.

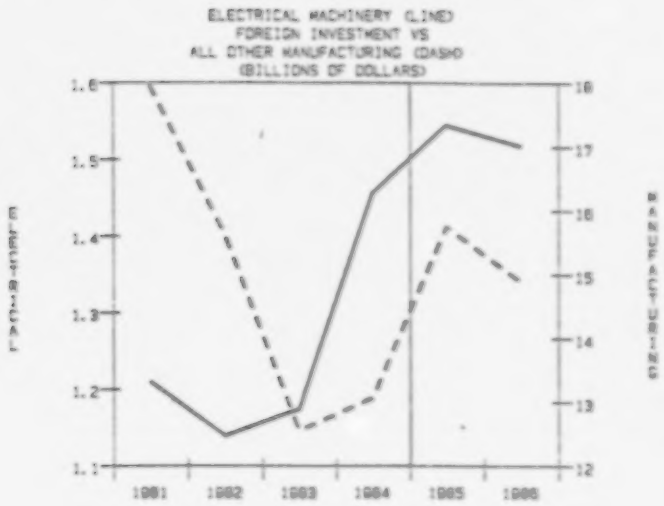

ELECTRICAL MACHINERY (LINE)
FOREIGN INVESTMENT VS
ALL OTHER MANUFACTURING (DASH)
(BILLIONS OF DOLLARS)
1.6
1.5
1.4
1.3
1.2
1.1
18
17
16
15
14
13
12
1981
1982
1983
1984
1985
1986

TABLE I

PLANS FOR CAPITAL SPENDING
(Billions of Dollars)

INDUSTRY	1984 ACTUAL	1985 PLANNED	1984-85 % CHANGE	1986 PLANNED	1987 PLANNED
Primary & Fabricated Metals	1,070.0	1,277.6	19.4	1,385.2	1,312.3
Machinery	3,423.0	3,995.4	16.7	3,851.7	3,238.0
Electrical Machinery	1,456.0	1,545.3	6.1	1,517.7	1,627.6
Transportation Equipment	2,658.0	3,389.1	27.5	3,154.3	2,902.5
Chemicals	2,542.0	2,953.4	16.2	3,336.8	2,741.3
Food & Beverages	1,267.0	1,485.0	17.2	1,346.1	1,526.9
Other Manufacturing	2,106.0	2,653.8	26.0	2,617.6	2,743.2
ALL MANUFACTURING	14,522.0	17,299.6	19.1	16,409.4	16,091.8
Petroleum	15,844.0	16,112.5	9.7	22,782.2	24,507.1
ALL INDUSTRY	30,366.0	33,312.1	14.1	39,191.6	40,598.9

NOTE: Figures refer to foreign affiliates of U.S. companies in which a majority share is owned by U.S. companies. Data for 1985, 1986, 1987 are based on a sample but represent spending by all U.S. majority-owned foreign affiliates.

*SOURCE: U.S. Dept. of Commerce

**Includes paper, textiles, instruments, rubber, and stone, clay and glass.

TABLE II

OVERSEAS CAPITAL EXPENDITURES FOR PROPERTY, BUILDINGS, AND MACHINERY & EQUIPMENT
(PERCENT OF TOTAL)

INDUSTRY	Estimated 1984			Planned 1985		
	Property	Buildings	Machinery & Equipment	Property	Buildings	Machinery & Equipment
Primary & Fabricated Metals	3	7	89	3	5	91
Machinery	6	17	77	4	14	81
Electrical Machinery	3	10	86	5	9	86
Transportation Equipment	1	7	92	1	7	92
Chemicals	1	16	82	2	16	82
Food & Beverages	0	7	93	15	1	84
Other Manufacturing	4	20	75	5	20	76
ALL MANUFACTURING	3	13	84	4	12	84
Petroleum	0	0	100	0	0	100

TABLE II (Continued)

OVERSEAS CAPITAL EXPENDITURES FOR PROPERTY, BUILDINGS AND MACHINERY & EQUIPMENT
(PERCENT OF TOTAL)

INDUSTRY	Planned 1986			Planned 1987		
	Property	Buildings	Machinery & Equipment	Property	Buildings	Machinery & Equipment
Primary & Fabricated Metals	2	8	90	3	9	88
Machinery	3	10	87	4	9	88
Electrical Machinery	6	9	85	1	10	89
Transportation Equipment	1	7	92	1	7	92
Chemicals	2	15	82	2	16	82
Food & Beverages	0	11	89	0	5	95
Other Manufacturing	5	21	74	5	22	73
ALL MANUFACTURING	3	12	85	3	11	86
Petroleum	0	0	100	0	0	100

TABLE III

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Billions of Dollars)

INDUSTRY	CANADA				LATIN AMERICA			
	Estimated	Planned			Estimated	Planned		
	1984	1985	1986	1987	1984	1985	1986	1987
Primary & Fabricated Metals	465	25	120	104	278	35	85	71
Machinery	358	588	524	238	289	571	402	515
Electrical Machinery	138	46	21	28	125	171	124	163
Transportation Equipment	505	407	282	258	440	729	678	675
Chemicals	412	480	538	123	347	705	703	507
Food & Beverages	281	740	615	749	192	404	250	369
Other Manufacturing	595	795	657	648	290	319	412	371
ALL MANUFACTURING	2,753	3,081	2,757	2,148	1,961	2,934	2,654	2,671
Petroleum	3,168	3,069	1,947	3,329	795	1,669	681	630
ALL INDUSTRY	5,921	6,150	4,704	5,477	2,756	4,603	3,335	3,301

NOTE: The sum of the regions is not equal to the all industry total for overall capital expenditures. This is due to international capital spending by some firms which remains unallocated regionally, e.g. the purchase of oil tankers and oil drilling equipment deployed in many regions of the world during their useful life.

TABLE III (Continued)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(MILLIONS OF DOLLARS)

INDUSTRY	EEC*				EUROPE OTHER THAN EEC			
	Estimated	Planned			Estimated	Planned		
	1984	1985	1986	1987	1984	1985	1986	1987
Primary & Fabricated Metals	265	379	403	437	18	33	289	400
Machinery	2,319	1,886	1,432	1,696	93	25	21	26
Electrical Machinery	622	1,119	1,018	1,338	92	25	0	0
Transportation Equipment	1,418	1,716	1,558	1,355	120	166	185	112
Chemicals	1,347	1,249	1,448	1,687	64	87	102	26
Food & Beverages	599	329	457	391	62	0	0	0
Other Manufacturing	979	1,178	1,200	1,393	59	130	110	91
ALL MANUFACTURING	7,423	7,856	7,516	8,297	508	466	707	655
Petroleum	4,916	2,670	3,346	2,527	2,052	3,556	10,580	12,441
ALL INDUSTRY	12,339	10,526	10,862	10,824	2,560	4,022	11,287	13,096

*Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, Netherlands, United Kingdom

TABLE III (Continued)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(MILLIONS OF DOLLARS)

	MIDDLE EAST*				AUSTRALIA, NEW ZEALAND, SOUTH AFRICA			
		Planned				Planned		
INDUSTRY	Estimated 1984	1985	1986	1987	Estimated 1984	1985	1986	1987
Primary & Fabricated Metals	0	184	173	231	15	242	294	26
Machinery	7	342	217	181	32	181	235	507
Electrical Machinery	9	0	0	0	26	41	38	50
Transportation Equipment	0	0	0	0	150	299	323	358
Chemicals	6	20	22	0	128	155	175	209
Food & Beverages	4	0	0	0	127	11	11	12
Other Manufacturing	1	0	0	0	101	66	85	89
ALL MANUFACTURING	27	546	412	412	579	995	1,161	1,251
Petroleum	572	228	0	0	482	1,119	0	0
ALL INDUSTRY	599	774	412	412	1,061	2,114	1,161	1,251

*Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, PDR Yemen, Yemen Arab Republic

TABLE III (Continued)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(MILLIONS OF DOLLARS)

INDUSTRY	JAPAN-ASIA (OTHER THAN MIDDLE EAST)				AFRICA (OTHER THAN MIDDLE EAST AND SOUTH AFRICA)			
	Estimated	Planned			Estimated	Planned		
	1984	1985	1986	1987	1984	1985	1986	1987
Primary & Fabricated Metals	193	380	21	43	12	0	0	0
Machinery	149	276	144	49	1	77	77	26
Electrical Machinery	532	128	21	27	3	15	20	22
Transportation Equipment	25	72	128	145	0	0	0	0
Chemicals	200	236	327	185	10	21	23	5
Food & Beverages	77	2	13	6	14	0	0	0
Other Manufacturing	51	147	131	135	5	18	24	17
ALL MANUFACTURING	1,227	1,241	785	590	45	131	144	70
Petroleum	2,310	1,816	5,653	5,159	1,594	1,985	577	421
ALL INDUSTRY	3,537	3,057	6,438	5,749	1,594	2,116	721	491

TABLE IV

EXPECTED PROFIT MARGINS ON SALES,
OVERSEAS SUBSIDIARIES vs. U.S.

INDUSTRY	1985 % of Companies Answering			1986 % of Companies Answering		
	Higher	Lower	Same	Higher	Lower	Same
Primary & Fabricated Metals	60%	40%	0%	60%	40%	0%
Machinery	40	40	20	40	30	30
Electrical Machinery	60	20	20	50	25	25
Transportation Equipment	0	100	0	0	100	0
Chemicals	12	50	38	29	42	29
Other Manufacturing	21	58	21	22	64	14
ALL MANUFACTURING	32	48	20	33	48	19
Petroleum	25	25	50	0	50	50
ALL INDUSTRY	31	46	23	30	48	22

TABLE V

EXPECTED OVERSEAS PROFIT MARGINS ON SALES,
1985 vs. 1984, 1986 vs. 1985

INDUSTRY	-----1985 vs. 1984------ % of Companies Answering Higher	Lower	Same	-----1986 vs. 1985------ % of Companies Answering Higher	Lower	Same
Primary & Fabricated Metals	50%	25%	25%	50%	0%	50%
Machinery	70	10	20	70	30	0
Electrical Machinery	60	0	40	75	0	25
Transportation Equipment	50	50	0	100	0	0
Chemicals	50	12	38	57	0	43
Other Manufacturing	36	43	21	71	8	21
ALL MANUFACTURING	51	23	26	68	10	22
Petroleum	50	50	0	50	50	0
ALL INDUSTRY	51	26	23	67	13	20

TABLE VI

EXPECTED SALES OF FOREIGN AFFILIATES

INDUSTRY	Expected % Change 1984-85	Expected % Change 1985-86
Primary & Fabricated Metals	-13.2%	11.4%
Machinery	3.9	7.9
Electrical Machinery	10.9	10.5
Transportation Equipment	-8.1	10.0
Chemicals	0.8	9.3
Other Manufacturing	1.7	11.7
ALL MANUFACTURING	0.1	9.9
Petroleum	1.4	2.2
ALL INDUSTRY	0.8	5.9